

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS

REPORT ON AUDIT

COUNTY FLOOD CONTROL DISTRICT

FOR THE YEAR ENDED JUNE 30, 2009

**County of San Bernardino
Flood Control District
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Flood Control District
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special District
Flood Control

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Flood Control District (the District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Flood Control District as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 34 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Flood Control District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rogers, Anderson, Malachy & Scott, LLP

November 4, 2009

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County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2009

	Governmental Activities Flood Control
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 20,484,342
Cash with fiscal agent	43,783,018
Restricted cash	173,830
Customer deposits	60,000
Cash in trust	5,538,058
Interest receivable	100,885
Loans receivable	10,000
Taxes receivable	2,669,725
Due from other governments	1,695,976
Total current assets	<u>74,515,834</u>
Noncurrent assets:	
Accounts receivable	3,272,102
Capital assets:	
Land	30,349,052
Buildings	759,462
Construction in progress	37,983,862
Channels, drains, dams, basins	407,116,595
Equipment and vehicles	13,945,047
Less accumulated depreciation	(201,704,614)
Deferred charges	1,555,895
Total noncurrent assets	<u>293,277,401</u>
Total assets	<u>367,793,235</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2009

	Governmental Activities Flood Control
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 4,211,967
Salaries and benefits payable	985,723
Retention payable	672,693
Interest payable	1,561,320
Due to other governments	3,010,108
Deferred revenue	70,520
Employee compensated absences - current portion	431,656
Loans payable - current portion	691,315
Bonds payable - current portion	2,770,000
Customer deposits	196,420
Total current liabilities	<u>14,601,722</u>
Noncurrent liabilities:	
Employee compensated absences	1,294,969
Loans payable	4,546,842
Bonds payable	114,750,000
Deferred loss on refunding	(698,900)
Premium on bonds	1,572,273
Total noncurrent liabilities	<u>121,465,184</u>
Total liabilities	<u>136,066,906</u>
NET ASSETS	
Invested in capital assets, net of related debt	233,290,405
Restricted assets	173,830
Unrestricted	<u>(1,737,906)</u>
Total net assets	<u>\$ 231,726,329</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year Ended June 30, 2009

	Governmental Activities Flood Control
EXPENSES	
Salaries and benefits	\$ 14,859,326
Services and supplies	28,237,310
Depreciation	8,809,919
Interest	4,190,338
Total program expenses	<u>56,096,893</u>
PROGRAM REVENUE	
Operating grants and contributions	9,548,931
Net program expense	<u>(46,547,962)</u>
GENERAL REVENUES	
Property taxes	40,262,175
Other taxes	985,687
Interest	2,171,410
Rents, concessions and royalties	1,142,806
Other revenues	5,275,681
Intergovernmental	1,451,892
Gain on sale of capital assets	35,745
Total general revenues	<u>51,325,396</u>
Change in net assets	4,777,434
Net assets - beginning, as restated	<u>226,948,895</u>
Net assets - ending	<u><u>\$ 231,726,329</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Balance Sheet
Governmental Funds
June 30, 2009

	<u>Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 16,584,414
Cash with fiscal agent	43,783,018
Restricted cash	173,830
Customer deposits	60,000
Cash in trust	5,538,058
Interest receivable	79,442
Loans receivable	10,000
Taxes receivable	2,669,725
Due from other funds	50,267
Due from other governments	1,450,123
	<hr/>
Total assets	<u><u>\$ 70,398,877</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 4,211,967
Salaries and benefits payable	941,515
Retention payable	672,693
Loan payable	10,000
Due to other funds	3,014
Due to other governments	3,010,108
Deferred revenue	70,520
Customer deposits	196,420
	<hr/>
Total liabilities	<u>9,116,237</u>
Fund balance:	
Reserved for:	
Encumbrances	9,985,139
Unreserved:	
Undesignated	51,297,501
	<hr/>
Total fund balance	<u>61,282,640</u>
	<hr/>
Total liabilities and fund balance	<u><u>\$ 70,398,877</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2009

Fund balance	\$ 61,282,640
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Internal Service Fund's working capital is combined into the government-wide statement of net assets for reporting purposes.	4,075,763
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	288,449,404
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Long-term receivables related to capital assets are not receivable in the current period and are not reported in the governmental funds' balance sheet.	3,272,102
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	\$ (117,520,000)	
Loans payable	(5,228,157)	
Less: deferred charges	1,555,895	
Less: deferred loss	698,900	
Plus: premium on debt	(1,572,273)	
Accrued interest payable	(1,561,320)	
Long-term compensated absences payable	(1,726,625)	(125,353,580)

Net assets of governmental activities	\$ 231,726,329
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	<u>Flood Control</u>
REVENUES	
Property taxes	\$ 40,262,175
Other taxes	985,687
Governmental aid	9,548,931
Rents, concessions and royalties	1,142,806
Interest	2,023,728
Intergovernmental	1,451,892
Other revenues	<u>1,798,316</u>
Total revenues	<u>57,213,535</u>
EXPENDITURES	
Salaries and benefits	14,673,121
Services and supplies	37,245,776
Debt service:	
Principal	4,656,315
Interest	4,284,428
Capital outlay:	
Easements/Right of way	109,462
Equipment	<u>5,509</u>
Total expenditures	<u>60,974,611</u>
Excess of revenues over (under) expenditures	<u>(3,761,076)</u>
OTHER FINANCING SOURCES (USES)	
Sale of capital assets	<u>35,745</u>
Total other financing sources (uses)	<u>35,745</u>
Net change in fund balance	(3,725,331)
Fund balance - beginning	<u>65,007,971</u>
Fund balance - ending	<u><u>\$ 61,282,640</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Net change in fund balance - total governmental funds \$ (3,725,331)

Amounts reported for *governmental activities* in the statement of activities are different because:

Internal Service Fund's net change in fund balance is "rolled into" the governmental funds' fund balance for reporting purposes in the government-wide statement of activities. This is the amount by which the internal service fund's net assets decreased. 1,939,501

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$8,809,919) was exceeded by capital outlay (\$10,891,279) in the current period. 2,081,360

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Deferred charges	\$	11,794	
Principal payments on bonds		1,975,000	
Principal payments on loans		<u>2,681,315</u>	4,668,109

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable		<u>(186,205)</u>
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Change in net assets of governmental activities	\$	<u><u>4,777,434</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Net Assets
Proprietary Fund
June 30, 2009

	INTERNAL SERVICE FUND <u>Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,899,928
Interest receivable	21,443
Due from other funds	2,329
Due from other governments	<u>245,853</u>
Total current assets	<u>4,169,553</u>
Noncurrent assets:	
Vehicles	13,693,661
Equipment	37,334
Less accumulated depreciation	<u>(8,828,765)</u>
Total noncurrent assets	<u>4,902,230</u>
Total assets	<u>9,071,783</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	44,208
Due to other funds	<u>49,582</u>
Total liabilities	<u>93,790</u>
NET ASSETS	
Invested in capital assets	4,902,230
Unrestricted	<u>4,075,763</u>
Total net assets	<u><u>\$ 8,977,993</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2009

	INTERNAL SERVICE FUND <u>Equipment Rental</u>
OPERATING REVENUES	
Charges for services	\$ 3,444,333
Total operating revenues	<u>3,444,333</u>
OPERATING EXPENSES	
Services and supplies	1,685,546
Depreciation	<u>1,042,074</u>
Total operating expenses	<u>2,727,620</u>
Operating income	<u>716,713</u>
NONOPERATING REVENUES	
Investment earnings	147,682
Gain on sale of capital assets	32,686
Other revenue	<u>346</u>
Total nonoperating revenues	<u>180,714</u>
Change in net assets	897,427
Net assets - beginning	<u>8,080,566</u>
Net assets - ending	<u><u>\$ 8,977,993</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
Flood Control District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2009

	INTERNAL SERVICE FUND Equipment Rental
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 3,327,650
Payments to suppliers	(1,511,860)
Net cash provided by operating activities	1,815,790
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other revenue	346
Net cash provided by noncapital financing activities	346
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(1,931,893)
Net cash (used for) capital financing activities	(1,931,893)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	164,885
Proceeds from sale of capital assets	45,830
Net cash provided by investing activities	210,715
Net increase in cash and cash equivalents	94,958
Cash and cash equivalents - beginning of the year	3,804,970
Cash and cash equivalents - end of the year	\$ 3,899,928
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 716,713
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,042,074
Loss on transfer of asset	130,302
Change in assets and liabilities:	
Decrease in due from other funds	129,960
Increase in due from other governments	(245,853)
Increase in accrued liabilities	43,384
Decrease in due to other funds	(790)
Net cash provided by operating activities	\$ 1,815,790

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reporting Entity - *Continued*

Zone	Geographical Areas (Description)
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to nine months.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue funds* used in Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation - *Continued*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2009.

Receivables

All accounts receivable are shown net of an allowance from uncollectibles when applicable. There are no accounts receivable as of June 30, 2009.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land, structures and equipment and vehicles) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service Fund (Proprietary)	
Equipment and vehicles	productive hours

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absences liability is recorded as a noncurrent liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 60% of their accumulated sick leave.

Compensated absences activity for the year ended June 30, 2009 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 1,540,420	\$ 1,121,365	\$ 935,160	\$ 1,726,625

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities.

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance includes a reconciliation between net changes in fund balance - total governmental funds and changes in net assets of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the differences of \$2,081,360 are as follows:

Capital outlay	\$ 10,891,279
Depreciation expense	<u>(8,809,919)</u>
Change in net assets of governmental activities	<u>\$ 2,081,360</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 - RESTRICTED CASH

Restricted cash consists of deposits received by the District from the Bureau of Reclamation for the Etiwanda / San Sevaine construction project that, per the loan agreement, are restricted for this project.

NOTE 3 - LOANS RECEIVABLE

Loans Receivable consists of a repayment agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency regarding the Bureau of Reclamation Day Creek Loan. (See Note 6).

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 4 - CAPITAL ASSETS

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for the governmental type activities are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 30,136,732	\$ 213,777	\$ (1,457)	\$ 30,349,052
Construction in progress	66,337,032	4,383,964	(32,737,134)	37,983,862
Total capital assets, not being depreciated	96,473,764	4,597,741	(32,738,591)	68,332,914
Capital assets, being depreciated:				
Buildings	759,462	-	-	759,462
Channels, drains, dams, basins	368,074,014	39,042,581	-	407,116,595
Equipment and vehicles	224,504	-	(10,452)	214,052
Total capital assets, being depreciated	369,057,980	39,042,581	(10,452)	408,090,109
Less accumulated depreciation for:				
Buildings	(337,823)	(22,003)	-	(359,826)
Channels, drains, dams, basins	(184,579,821) *	(7,738,443)	-	(192,318,264)
Equipment and vehicles	(190,360)	(7,399)	-	(197,759)
Total accumulated depreciation	(185,108,004)	(7,767,845)	-	(192,875,849)
Total capital assets, being depreciated, net	183,949,976	31,274,736	(10,452)	215,214,260
Total governmental activities, net	\$ 280,423,740	\$ 35,872,477	\$ (32,749,043)	\$ 283,547,174

* - beginning balance has been increased by \$(554,938) for a prior period adjustment as shown in Note 17.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 4 - CAPITAL ASSETS - Continued

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Internal Service Fund:				
Capital assets, being depreciated:				
Vehicles	\$ 12,238,747	\$ 1,931,893	\$ (476,979)	\$ 13,693,661
Equipment	37,334	-	-	37,334
Total capital assets, being depreciated	<u>12,276,081</u>	<u>1,931,893</u>	<u>(476,979)</u>	<u>13,730,995</u>
Less accumulated depreciation for:				
Vehicles	(8,120,224)	(1,042,074)	333,533	(8,828,765)
Total accumulated depreciation	<u>(8,120,224)</u>	<u>(1,042,074)</u>	<u>333,533</u>	<u>(8,828,765)</u>
Total capital assets, being depreciated, net	<u>4,155,857</u>	<u>889,819</u>	<u>(143,446)</u>	<u>4,902,230</u>
Total	<u>\$ 284,579,597</u>	<u>\$ 36,762,296</u>	<u>\$ (32,892,489)</u>	<u>\$ 288,449,404</u>

At June 30, 2009 the District had \$37,983,862 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS

<u>Zone</u>	<u>Description</u>	<u>Total CIP By Project</u>	<u>Totals By Zone</u>
1	West State Street Drain	\$ 13,847,086	
1	English Canyon	206,892	
1	West Fontana Channel	636,171	
1	Sultana/Cypress Storm Drain	2,500,579	
1	Sultana Interceptor	204,692	
1	Cucamonga Storm Drain	1,307	
1	San Sevaine Basin 1-4	2,373	
1	Cucamonga Basin #6 (Colonies)	852,579	
1	24 th Street Storm Drain	1,502	\$ 18,253,181
2	Del Rosa Channel	319	
	Rialto Channel (Cactus Basin #1 to		
2	Bloomington)	455,297	
2	Rialto Channel, Phase 2	168,081	
2	Rialto Channel, Phase 3	4,529	
2	Rialto Channel	3,553	

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 4 - CAPITAL ASSETS - *Continued*

CONSTRUCTION IN PROGRESS

Zone	Description	Total CIP By Project	Totals By Zone
2	Del Rosa Channel	\$ 140,794	
2	Cactus Basin #3	2,210,511	
2	Cactus Basin #4	51,351	
2	Cactus Basin #5	46,400	
2	Rialto Channel (Ultimate Channel Design)	1,503,831	
2	West Fontana Channel	51,775	
2	Lytle Cajon Channel	129,944	
2	East Rialto Storm Drain	4,260	
2	Del Rosa Channel Emerg	10,000	
2	Rialto Channel Priority Cross	638	
2	Sand Creek/Warm Creek Confluence	173,367	
2	Warm Creek Sprd grnd	20,165	\$ 4,974,815
3	Elder Creek Channel	142,386	
3	Wildwood creek Detention	8,785	
3	Plunge Creek Channel	5,990	157,161
3	San Timoteo Channel	2,125,077	
3	San Timoteo Channel, Phase 3B	7,280,260	9,405,337
4	Oro Grande Wash Detention Basin	12,525	
4	Hesperia Basin	722	
4	Mojave River 1-15 Levee	3,064,659	
4	Hesperia Detention Basin	89,151	
4	Hesperia MPD Line G-01	29,009	
4	Desert Knolls Wash	588,978	
4	Mojave River Channel	87,754	
4	Adelanto Line E-01	353,948	
4	Mojave River Levee Phase 2	272,176	
4	Desert Knolls Wash	91	
4	Kitchen Wash	12,491	
4	Antelope Creek Wash	121,821	
4	Desert Knolls Wash	157	
4	Choiceana Outlet at Mojave River	9,992	
4	Kitchen Wash	279,408	
4	Desert Knolls Wash	81,392	
4	Mountain View Acres	58,896	5,063,170
5	Rim Forest Drainage	54,101	
5	Cumberland Drain	2,326	
5	Cumberland Drain	62	56,489
6	Sheep Creek	446	
6	Donnell Basin	73,263	73,709
	Totals	\$ 37,983,862	\$ 37,983,862

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 4 - CAPITAL ASSETS - *Continued*

The District has active major construction projects as of June 30, 2009. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

<u>Job Number</u>	<u>Project</u>	<u>Remaining Commitment</u>
F01087	West State Street Storm Drain	\$ 85,102
F21272	Rialto Channel	119,120
F01312	English Canyon	545,102
F01333	San Sevaine System	43,315
F01334	CSDP Project 3-5	205,000
F01342	Rimforest Drainage	69,903
F01363	SS Channel IIID-Jurupa to Valley	158,904
F01382	Chino MPD	25,000
F01389	Mojave River I-15 Levee	2,210
F01502	Etiwanda Levee	102,014
F01510	San Timoteo Channel Phase3B	48,820
F01545	Randall Basin	27,000
F01566	Sultana/Cypress Storm Drain	2,964,887
F01577	County Line Storm Drain	385,772
F01611	NPDES Coordination	16,717
F01645	Dam Inaudation Study	4,998
F01666	Cactus Basin #3	882
F01669	Rialto Channel (Ultimate Channel Design)	71,426
F01744	Etiwanda Creek	2,760
F01760	Adelanto Line E-01	350,000
F01761	Kitchen Wash	6,000
F01773	San Sevaine Diversion Structure	150,000
F01840	Turner Basin #3	810
F02094	Cucamonga Basin #6	5,029,420
F02105	San Antonio Storm Drain	6,008
F02115	Mulberry Channel Repair	22,580
F02200	CDSP 3 Rialto MPD Update	50,000
Total		<u><u>\$ 10,493,750</u></u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 5 - DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda / San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$70,520 at June 30, 2009.

NOTE 6 - LOANS PAYABLE

Loans payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$1,228,157 for the Day Creek Project and the United States Army Corps of Engineers for \$4,000,000 for a grand total of \$5,228,157.

Flood Control entered into a contract with the Bureau of Reclamation for construction of the Day Creek Project. A subsequent agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the terms and conditions for repayment of the Bureau of Reclamation loan. Payments are reflected in Zone 1 as cash contributions (from the Agency) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2009 is \$1,228,157.

Flood Control entered into a loan agreement with the United States Army Corps of Engineers for the San Timoteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project). This project was not completed as of June 30, 2009. The unpaid loan balance at June 30, 2009 was \$4,000,000.

The following is a schedule by year of future loan repayments as of June 30, 2009:

Years Ending June 30,	Bureau of Reclamation Day Creek Project	Army Corps of Engineering San Timoteo	Total
2010	\$ 681,315	\$ -	\$ 681,315
2011	546,842	-	546,842
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015 - 2017	-	4,000,000	4,000,000
	<u>\$ 1,228,157</u>	<u>\$ 4,000,000</u>	<u>\$ 5,228,157</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 7 - BONDS PAYABLE

Refunding Bonds

In May 2007, the San Bernardino County Flood Control District issued Refunding Bonds, Series 2007, in the amount of \$23,845,000. Interest on the Refunding Bonds, Series 2007 is paid at a rate from 4.25% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2021.

The Bonds were issued to refund the obligation of the District under a contract with the County relating to a loan made by and between the United States of America and the County, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds. The contract referred to above was entered into under the Small Reclamation Projects Act of 1956.

As a result of the advance refunding, the District decreased its overall debt service by approximately \$5,514,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$4,241,241.

The following is a schedule of debt service requirements to maturity as of June 30, 2009 for the Refunding Bonds:

<u>Years Ending June 30,</u>	<u>Refunding Bonds, Series 2007</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,010,000	\$ 1,097,850
2011	1,350,000	1,050,650
2012	1,405,000	995,550
2013	1,465,000	938,150
2014	1,525,000	870,725
2015-2019	9,055,000	3,015,250
2020-2022	7,265,000	585,125
	<u>\$ 23,075,000</u>	<u>\$ 8,553,300</u>

Judgment Obligation Bonds

In May 2007, the San Bernardino County Flood Control District issued Judgment Obligation Bonds, Series A in the amount of \$58,780,000. The Series A Bonds were initially issued as auction rate securities on May 29, 2007, with an initial interest rate of 5.35% for the Initial Period of one day. Pursuant to the Indenture of Trust, all of the Series A Bonds were converted to bear interest at Fixed Interest Rates on the Established Fixed Rate Conversion Date (May 30, 2007) and were reoffered. In connection with the conversion of the Series A Bonds on the established fixed rate conversion date, \$425,000 principal amount of the Series A Bonds was paid, leaving a balance outstanding of \$58,355,000.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 7 - BONDS PAYABLE - *Continued*

Interest on the Series A Bonds is paid at a rate from 4.50% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2029.

The Bonds were issued to pay the obligation of the District under a settlement agreement relating to an inverse condemnation action against the District, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds.

The following is a schedule of debt service requirements to maturity as of June 30, 2009 for the Judgment Obligation Bonds:

Years Ending June 30,	Judgment Obligation Bonds	
	Principal	Interest
2010	\$ 1,760,000	\$ 2,585,119
2011	1,845,000	2,494,994
2012	1,940,000	2,400,369
2013	2,040,000	2,300,869
2014	2,140,000	2,196,369
2015-2019	12,130,000	9,522,956
2020-2024	14,910,000	6,651,247
2025-2029	18,635,000	2,819,962
2030	1,750,000	43,750
	<u>\$ 57,150,000</u>	<u>\$ 31,015,635</u>

Refunding Bonds

In April 2008, the San Bernardino County Flood Control District issued Refunding Bonds, Series 2008, in the amount of \$37,295,000. Interest on the Refunding Bonds, Series 2008 is paid at a Weekly Rate Mode interest rate payable on the first Business Day of each calendar month commencing on May 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2029 through 2037.

The Bonds were issued to refund all of the District's outstanding \$45,000,000 San Bernardino County Flood Control District Judgment Obligation Bonds, Series B, which were issued to refund a portion of certain obligations of the District under a settlement agreement relating to an inverse condemnation action against the District, fund interest on the Series 2008 Bonds at an assumed rate of 4.85% through August 1, 2008 at costs of issuance incurred in connection with the issuance of the Series 2008 Bonds.

As a result of the advance refunding, the District decreased its overall debt service by approximately \$18,563,737 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$3,058,909.

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 7 - BONDS PAYABLE - *Continued*

The following is a schedule of debt service requirements to maturity as of June 30, 2009 for the Refunding Bonds:

Years Ending June 30,	Refunding Bonds, Series 2008	
	Principal	Interest
2010	\$ -	\$ 1,700,242
2011	-	1,808,635
2012	-	1,808,807
2013	-	1,810,706
2014	-	1,807,081
2015-2019	-	9,043,865
2020-2024	-	9,044,038
2025-2029	-	9,045,937
2030-2034	18,155,000	7,589,417
2035-2039	19,140,000	2,464,589
	<u>\$ 37,295,000</u>	<u>\$ 46,123,317</u>

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 8 - LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2009 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Compensated Absences	\$ 1,540,420	\$ 1,121,365	\$ 935,160	\$ 1,726,625	\$ 431,656
Loan Payable	10,000	-	-	10,000	10,000
Loan-Bureau of Rec. Day Creek	1,909,472	-	681,315	1,228,157	681,315
U.S. Army Corp of Engineers	6,000,000	-	2,000,000	4,000,000	-
Series 2007 Refunding Bond	23,845,000	-	770,000	23,075,000	1,010,000
JOBS Series A & B	58,355,000	-	1,205,000	57,150,000	1,760,000
Premium	1,690,463 *	-	118,190	1,572,273	-
Deferred Loss on Refunding	(723,000)	-	(24,100)	(698,900)	-
Series 2008 Refunding Bond	<u>37,295,000</u>	<u>-</u>	<u>-</u>	<u>37,295,000</u>	<u>-</u>
Total Governmental Activities	<u>\$129,922,355</u>	<u>\$ 1,121,365</u>	<u>\$ 5,685,565</u>	<u>\$125,358,155</u>	<u>\$ 3,892,971</u>

* - beginning balance has been decreased by \$98,942 for a prior period adjustment as shown in Note 17.

NOTE 9 - CUSTOMER DEPOSITS

Customer deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way and easements and access to water for construction purposes.

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 10 - NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund Activities</u>	<u>Total Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2009			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 283,547,174	\$ 4,902,230	\$ 288,449,404
Less: Loans payable on infrastructure	(55,158,999)	-	(55,158,999)
	228,388,175	4,902,230	233,290,405
Restricted for Etiwanda/San Sevaine project	173,830	-	173,830
Unrestricted	(5,813,669)	4,075,763	(1,737,906)
Total Net Assets	<u>\$ 222,748,336</u>	<u>\$ 8,977,993</u>	<u>\$ 231,726,329</u>

NOTE 11 - RETENTIONS PAYABLE

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2009 the District's Retentions Payable balance was \$672,693.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 12 - RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (AQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Parks and Recreation, San Bernardino County Employees' Retirement Association (SBCERA), City of Chino Hills, Crest Forest Fire District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), and the Superior Courts were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

SBCERA is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes SBCERA pension trust fund as of June 30, 2009.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 7.68% - 12.96% and safety members 9.85% - 15.29% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 11.25%, County Safety 24.46%. All employers combined are required to contribute 13.95% of the current year covered payroll. For 2009, the County's annual pension cost of \$200,300 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 12 - RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2009, were as follows (in thousands):

Annual Required contribution (County fiscal year basis)	\$ 200,300
Interest on Pension Assets	(7,834)
Adjustment to the Annual Required Contribution	51,805
Annual Pension Cost	<u>244,271</u>
Annual Contributions Made	<u>200,300</u>
Increase/(Decrease) in Pension Assets	(43,971)
Pension Assets, Beginning of Year	<u>813,716</u>
Pension Assets, End of Year	<u><u>\$ 769,745</u></u>

The following table shows the County's required contributions and percentage contributed for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in Thousands)		Percentage Contributed
	SBCERA	County	
2007	\$ 239,857	\$ 194,130	100%
2008	\$ 241,721	\$ 203,712	100%
2009	\$ 246,232	\$ 200,300	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan, and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The outstanding liability at June 30, 2009 is \$430,784,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B. The outstanding liability at June 30, 2009 is \$301,595,000.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (the Series 2008 Bonds). The outstanding liability at June 30, 2009 is \$158,889,000.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 13 - PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2008-2009 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 14 - RISK MANAGEMENT

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$50 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$5 million per occurrence, and covered by Arch Ins. Co. for up to \$3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured with several insurers like Lexington Ins. Co, Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with Zurich Ins. Co., which provides annual coverage on a per claim basis with an SIR of \$2 million for each claim. Maximum coverage under the policy is \$25 million in limits per claim provided by Illinois Union Ins. Co.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co of Pittsburgh with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in Risk Management except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on Risk Management's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 2.75%. It is the Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$149.9 million reported at June 30, 2009 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 14 - RISK MANAGEMENT (continued)

Changes in the claims liability amount in fiscal years 2008 and 2009 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2007-08	\$ 129,683	\$ 51,702	\$ (32,064)	\$ 149,321
2008-09	\$ 149,321	\$ 32,909	\$ (32,289)	\$ 149,941

NOTE 15 - TRANSFERS TO/FROM OTHER FUNDS

Interfund Transfers To/From transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government-wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2009, the District had the following interfund activities:

	<u>Transfers in:</u>				<u>Total</u>
	<u>Zone 1</u>	<u>Zone 3</u>	<u>Administration</u>	<u>LADP</u>	
<u>Transfers out:</u>					
Zone 1	\$ -	\$ -	\$ 396,000	\$ -	\$ 396,000
Zone 2	-	622,150	165,900	-	788,050
Zone 3	-	-	91,800	-	91,800
Zone 4	-	-	118,500	-	118,500
Zone 5	-	-	8,700	-	8,700
Zone 6	-	-	31,200	-	31,200
LADP	638,800	-	-	-	638,800
	<u>\$ 638,800</u>	<u>\$ 622,150</u>	<u>\$ 812,100</u>	<u>\$ -</u>	<u>\$ 2,073,050</u>

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The District has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations.

**County of San Bernardino
Flood Control District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 17 - PRIOR PERIOD ADJUSTMENT

Net assets as of July 1, 2008 have been restated to correct an error made in the prior year. Additional depreciation expense of \$554,938 for channels, drains, dams, basins was incurred in the prior year but was not recorded on the District's records. Deferred charges for bond issuance costs were overstated by \$425,240, and premium amortization was understated by \$98,942 for a total of \$524,182. The net effect of the change to net assets is as follows:

Net assets - beginning	\$ 226,979,651
Prior period adjustments:	
Depreciation	(554,938)
Deferred charges on Bonds	<u>524,182</u>
Net assets - beginning, restated	<u>\$ 226,948,895</u>

In addition, the beginning balance of accumulated depreciation – channels, drains, dams, basins as shown in Note 4 has also been increased in the amount of (\$554,938) to reflect this correction. Also, the beginning balance for premium as shown in Note 8 has been decreased in the amount of \$98,942 to reflect this correction.

Required Supplementary Information
County of San Bernardino
Flood Control District
Budgetary Comparison Schedule - Special Revenue Fund
For the Fiscal Year Ended June 30, 2009

	Special Revenue Fund			
	Flood Control			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 40,162,900	\$ 40,162,900	\$ 40,262,175	\$ 99,275
Other taxes	1,240,100	1,240,100	985,687	(254,413)
Governmental aid	31,905,796	31,905,796	9,548,931	(22,356,865)
Rents, concessions and royalties	2,379,000	2,379,000	1,142,806	(1,236,194)
Interest	3,065,800	3,065,800	2,023,728	(1,042,072)
Intergovernmental	-	-	1,451,892	1,451,892
Other revenues	1,496,733	1,496,733	1,798,316	301,583
Total revenues	80,250,329	80,250,329	57,213,535	(23,036,794)
EXPENDITURES				
Salaries and benefits	15,726,468	16,868,468	14,673,121	2,195,347
Services and supplies	100,595,790	99,448,190	37,245,776	62,202,414
Debt service:				
Principal	7,151,400	7,151,400	4,656,315	2,495,085
Interest	8,718,575	8,718,575	4,284,428	4,434,147
Capital outlay:				
Easements/Right of way	1,175,000	1,175,000	109,462	1,065,538
Equipment	26,000	31,600	5,509	26,091
Structures and improvements	50,000	50,000	-	50,000
Lease purchase – equipment	66,000	66,000	-	66,000
Total expenditures	133,509,233	133,509,233	60,974,611	72,534,622
Excess of revenues over (under) expenditures	(53,258,904)	(53,258,904)	(3,761,076)	49,497,828
OTHER FINANCING SOURCES (USES)				
Transfers in	22,272,899	22,272,899	2,073,050	(20,199,849)
Transfers out	(21,322,250)	(21,322,250)	(2,073,050)	19,249,200
Sale of capital assets	-	-	35,745	35,745
Total other financing sources (uses)	950,649	950,649	35,745	(914,904)
Net change in fund balance	\$ (52,308,255)	\$ (52,308,255)	(3,725,331)	\$ 48,582,924
Fund balance - beginning			65,007,971	
Fund balance - ending			\$ 61,282,640	

**County of San Bernardino
Flood Control District
Combining Balance Sheet
Special Revenue Funds
June 30, 2009**

	Zone 1	Zone 2	Zone 3	Zone 4
ASSETS				
Cash and cash equivalents	\$ 5,453,566	\$ 2,353,041	\$ 1,840,269	\$ 2,930,837
Cash with fiscal agent	6,433,515	4,487,362	2,428,280	26,753,470
Restricted cash	173,830	-	-	-
Customer deposits	60,000	-	-	-
Cash in trust	5,538,058	-	-	-
Interest receivable	28,782	11,310	9,449	12,959
Loans receivable	-	-	-	-
Taxes receivable	1,196,602	485,958	302,264	397,353
Due from other funds	-	-	-	-
Due from other governments	347,767	-	168	-
Total assets	<u>\$ 19,232,120</u>	<u>\$ 7,337,671</u>	<u>\$ 4,580,430</u>	<u>\$ 30,094,619</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,599,905	\$ 173,788	\$ 15,605	\$ 6,000
Salaries and benefits payable	261,082	171,074	107,521	80,970
Retention payable	42,026	30,268	24,800	-
Loan payable	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	512,024	636,567	1,252,580	432,257
Deferred revenue	61,070	9,450	-	-
Customer deposits	66,420	130,000	-	-
Total liabilities	<u>4,542,527</u>	<u>1,151,147</u>	<u>1,400,506</u>	<u>519,227</u>
Fund Balances:				
Reserved for:				
Encumbrances	4,693,202	483,850	1,479,976	1,505,164
Unreserved:				
Undesignated	<u>9,996,391</u>	<u>5,702,674</u>	<u>1,699,948</u>	<u>28,070,228</u>
Total fund balances	<u>14,689,593</u>	<u>6,186,524</u>	<u>3,179,924</u>	<u>29,575,392</u>
Total liabilities and fund balances	<u>\$ 19,232,120</u>	<u>\$ 7,337,671</u>	<u>\$ 4,580,430</u>	<u>\$ 30,094,619</u>

Zone 5	Zone 6	Administration	LADP	Total
\$ 475,788	\$ 632,486	\$ 130,240	\$ 2,768,187	\$ 16,584,414
1,140,680	1,832,293	707,418	-	43,783,018
-	-	-	-	173,830
-	-	-	-	60,000
-	-	-	-	5,538,058
1,486	2,681	969	11,806	79,442
-	-	10,000	-	10,000
29,546	101,365	156,637	-	2,669,725
-	-	685	49,582	50,267
-	168	998,505	103,515	1,450,123
<u>\$ 1,647,500</u>	<u>\$ 2,568,993</u>	<u>\$ 2,004,454</u>	<u>\$ 2,933,090</u>	<u>\$ 70,398,877</u>
\$ 31,163	\$ -	\$ 316,637	\$ 68,869	\$ 4,211,967
16,947	36,625	185,478	81,818	941,515
-	-	575,599	-	672,693
-	-	-	10,000	10,000
-	-	3,014	-	3,014
6,787	57,131	105,339	7,423	3,010,108
-	-	-	-	70,520
-	-	-	-	196,420
<u>54,897</u>	<u>93,756</u>	<u>1,186,067</u>	<u>168,110</u>	<u>9,116,237</u>
300,000	57,475	505,805	959,667	9,985,139
<u>1,292,603</u>	<u>2,417,762</u>	<u>312,582</u>	<u>1,805,313</u>	<u>51,297,501</u>
<u>1,592,603</u>	<u>2,475,237</u>	<u>818,387</u>	<u>2,764,980</u>	<u>61,282,640</u>
<u>\$ 1,647,500</u>	<u>\$ 2,568,993</u>	<u>\$ 2,004,454</u>	<u>\$ 2,933,090</u>	<u>\$ 70,398,877</u>

County of San Bernardino
Flood Control District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Special Revenue Funds
June 30, 2009

	Zone 1	Zone 2	Zone 3	Zone 4
REVENUES				
Property taxes	\$ 17,964,476	\$ 7,880,490	\$ 4,310,526	\$ 6,000,690
Other taxes	427,948	237,659	100,489	122,048
Governmental aid	6,084,478	881,197	312,274	79,305
Rents, concessions and royalties	604,251	331,359	172,307	28,975
Interest	1,005,038	156,006	131,850	532,525
Intergovernmental	400,000	-	-	-
Other revenues	802,357	664,280	13,414	14,024
Total revenues	<u>27,288,548</u>	<u>10,150,991</u>	<u>5,040,860</u>	<u>6,777,567</u>
EXPENDITURES				
Salaries and benefits	4,086,215	2,725,885	1,625,120	1,172,810
Services and supplies	21,152,752	6,882,353	4,037,860	2,233,154
Debt service:				
Principal	2,656,315	-	2,000,000	-
Interest	4,284,428	-	-	-
Capital outlay:				
Easements/Right of way	-	-	64,485	11,420
Equipment	-	-	-	5,509
Total expenditures	<u>32,179,710</u>	<u>9,608,238</u>	<u>7,727,465</u>	<u>3,422,893</u>
Excess of revenues over (under) expenditures	<u>(4,891,162)</u>	<u>542,753</u>	<u>(2,686,605)</u>	<u>3,354,674</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	638,800	-	622,150	-
Transfers out	(396,000)	(788,050)	(91,800)	(118,500)
Sale of capital assets	12,127	15,200	6,393	-
Total other financing sources (uses)	<u>254,927</u>	<u>(772,850)</u>	<u>536,743</u>	<u>(118,500)</u>
Net change in fund balances	(4,636,235)	(230,097)	(2,149,862)	3,236,174
Fund balances - beginning	<u>19,325,828</u>	<u>6,416,621</u>	<u>5,329,786</u>	<u>26,339,218</u>
Fund balances - ending	<u>\$ 14,689,593</u>	<u>\$ 6,186,524</u>	<u>\$ 3,179,924</u>	<u>\$ 29,575,392</u>

Zone 5	Zone 6	Administration	LADP	Total
\$ 366,756	\$ 1,428,887	\$ 2,310,350	\$ -	\$ 40,262,175
8,926	29,836	58,781	-	985,687
84,276	124,116	127,559	1,855,726	9,548,931
-	5,914	-	-	1,142,806
26,987	50,234	38,373	82,715	2,023,728
-	-	160,839	891,053	1,451,892
1,047	4,110	17,575	281,509	1,798,316
487,992	1,643,097	2,713,477	3,111,003	57,213,535
299,656	589,062	2,951,978	1,222,395	14,673,121
194,421	975,795	1,096,983	672,458	37,245,776
-	-	-	-	4,656,315
-	-	-	-	4,284,428
-	33,557	-	-	109,462
-	-	-	-	5,509
494,077	1,598,414	4,048,961	1,894,853	60,974,611
(6,085)	44,683	(1,335,484)	1,216,150	(3,761,076)
-	-	812,100	-	2,073,050
(8,700)	(31,200)	-	(638,800)	(2,073,050)
-	2,025	-	-	35,745
(8,700)	(29,175)	812,100	(638,800)	35,745
(14,785)	15,508	(523,384)	577,350	(3,725,331)
1,607,388	2,459,729	1,341,771	2,187,630	65,007,971
\$ 1,592,603	\$ 2,475,237	\$ 818,387	\$ 2,764,980	\$ 61,282,640

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special District
Flood Control

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Flood Control District (District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of San Bernardino Flood Control District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of supervisors, management, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malady & Smith, LLP

November 4, 2009